RETIREMENT PLANNING

5 TIPS TO MAKE THE MOST OF YOUR POST-RETIREMENT INCOME

INTRODUCTION

One way or another, we all stop working, sometime. Normally this happens via retirement, though I'm sure we can all think of other ways through which we might come to that pass.

But let's deal, for now, with the most common and desirable way to stop working – by retiring.

Retirement, while it has its pitfalls we'd all do well to be mindful of and work to avoid, can be an enormous, liberating opportunity. But to make it so, you need to plan well ahead – so that you can pursue the retirement opportunities ***you*** want.

Because having options is great – but you will need the funds to exercise them.

So, here are 5 tips for planning in advance to maximize the assets and income available to you on retirement.

MAXIMIZE YOUR RETIREMENT PLAN CONTRIBUTIONS

Rigby Financial Group strongly recommends that you make the most of your retirement plan contributions – contribute the maximum amount allowable – or all you can – to every plan you are eligible for on an annual basis. Have these contributions made automatically for your IRA(s), whether you do it annually, quarterly, monthly, or on a per-paycheck basis.

But it's especially important to contribute as much as you can to any and all employer-sponsored retirement plans you have available. The contribution limits are much higher for these than for IRAs, and most employers provide at least 3% of your salary in a matching contribution to a 401(k) plan (the average employer matching contribution is 4.6%). For-profit employers are ineligible to offer 403(b) or 457 plans, and employer matching contributions to these plans are not required, though some organizations do offer them.

MAXIMIZE YOUR RETIREMENT PLAN CONTRIBUTIONS

For 2025, the retirement plan contribution limits are:

Individual IRAs

For traditional and Roth IRAs, the 2025 contribution limit is $7,000, plus an additional $1,000 “catch-up” contribution for those over age 50.

Note that this limit applies to ***all***, not ***each***, of the IRAs you may have – the total contribution to your IRAs can be no more than the above limit.

It’s also worth noting that you may not contribute to a traditional IRA after reaching the age of 70½ except via rollovers of preexisting accounts. You ***may*** continue contributing to an existing Roth IRA after that age.

MAXIMIZE YOUR RETIREMENT PLAN CONTRIBUTIONS

SIMPLE IRA Plans

For SIMPLE IRAs (Savings Incentive Match Plan for Employees) the 2025 maximum contribution is $16,500. If you are over 50, a catch-up contribution of up to $3,500 is permitted.

In addition, beginning in 2025, SIMPLE IRA account owners between the ages of 60 and 63 can make catch-up contributions of the greater of $5,000 or 150% of the over-50 catch-up, which would be $5,250. For 2025, those aged 60-63 can make total contributions of $21,750 ($16,500 basic contribution limit plus $5,250 catch up for those 60-63) to SIMPLE IRAs.

Employers have the option of contributing:

- Up to 3% of an employee's compensation, or
- A blanket contribution for every eligible employee of 2% of their compensation the organizer and the applicable table(s) of contents.

MAXIMIZE YOUR RETIREMENT PLAN CONTRIBUTIONS

SEP IRA Plans

The contribution limit for 2025 (made by the employer on behalf of an eligible employee – eligibility is defined at the SEP plan's creation) to a Simplified Employee Pension (SEP) IRA plan is the lesser of:

- 25% of the first $350,000 of compensation (with some minor adjustments), or
- $70,000 per eligible employee (an increase from the 2024 limit of $69,000). No catch-up contributions are permitted.

MAXIMIZE YOUR RETIREMENT PLAN CONTRIBUTIONS

Other Employer-Sponsored Retirement Plans

The 2025 contribution limit for 401(k), 403(b), and most 457 plans is $23,500 for employees under 50. For those over 50, a catch-up contribution of up to $7,500 annually is permitted – allowing you to contribute up to $31,000, assuming your employer-sponsored retirement plan is structured to allow catch-up contributions.

If you have a 401(k) and 403(b) plan account, be aware that the ***total*** annual contribution to these employer-sponsored retirement plans is $23,500 for 2025 – or $31,000 if you are over 50. However, having more than one employer-sponsored plan account may still be a good idea, especially if one of these plans does not allow catch-up contributions. In such a case, you can contribute the amount of your catch-up to the second retirement plan account – the IRS permits you to treat this additional contribution as a catch-up for their purposes, even if your plan does not.

However, if your employer offers you both a 401(k) plan ***and a 457*** plan, which is a deferred compensation plan, you can contribute $23,500 to ***each*** plan in 2024, not counting catch-up contributions. If you have this option available and are over 50, you can contribute up to $31,000 tax-deferred to each account for 2025 – $23,500 plus $7,500 in catch-up. This would mean that, for those over 50, a total tax-deferred contribution of $62,000 can be made for 2025.

In addition, one new option is available starting in 2025 for those age 60 to 63. For these participants, the catch-up limit increases to a total of $11,250 – based on the $7,500 catch-up limit's multiplication by 150%. That brings the 2025 contribution limit for these ages to $34,750 – if you participate in both a 401(k) and 457 plan, you can contribute a total of $69,500 for the two accounts combined this year.

It's also a great idea, if feasible, to defer taking distributions from your retirement accounts until they are required by law. For most of those who have not yet retired, required minimum distributions (RMDs) must be taken beginning no later than April 1 the year after they reach age 73.

In fact, if you are still working after age 70½, you may (and your employer must, if they make such contributions for other employees) continue making your regular contributions to an employer-sponsored retirement plan, if you continue working for the same employer, RMDs – for this particular plan or plans – don't apply until you actually retire. You will have to take RMDs from any IRAs, though, as well as any employer-sponsored retirement plans from prior employment, if that or those account(s) still hold any assets.

BUILD UP YOUR HSA

Health care savings accounts (HSAs) are available to those enrolled in high-deductible health plans.

Many employers who offer high-deductible health plans also offer HSAs ***and*** contribute to them on their employees' behalf.

If you have an HSA, either through your employer or on your own (yes, you can open such an account even if you are self-employed), take advantage of it!

For 2025, the IRS considers any health plan with deductibles of at least $1,650 for individuals and $3,300 for families high-deductible. This year, those enrolled in such health plans can make HSA contributions (employer and employee combined) of $4,300 for employee care only and $8,550 if they have family coverage. For those over age 50, the maximum contributions increase by $1,000, to $5,300 for those without families and $9.550 for family coverage.

But HSAs are not just for your working life! They and any balances they hold accompany you into retirement! While you must be earning income to contribute or receive employer contributions to an HSA, there is nothing to prevent you from maximizing your contributions every year you are working, adding to the amount which can be used to pay for post-retirement medical and other eligible expenses.

More and more HSAs are offering investment options, too, for those with account balances above certain limits (these vary according to the policies of the institution offering the HSA but can be as low as $1,000). By making wise investment choices (consulting your virtual CFO or other trusted financial planner!), you can continue to grow your HSA funds even after retirement, assuming you and your family remain healthy.

ROTH CONVERSIONS

If you have substantial retirement assets accumulated in your IRA(s), and you have not done so already, 2025 might be the year to consider converting some of that balance to a Roth IRA.

Unlike most retirement plans, Roth accounts are funded by after-tax dollars, there are no required minimum distributions, and all distributions are tax-free, assuming the Roth account has been in existence, and the assets held in it, for at least 5 years, and that there are no distributions before the account owner reaches age 59½.

The tax-free distributions are available to your heirs, too, subject to the same 5-year rule (and, for most beneficiaries, subject also to the SECURE Act's 10-year payout rules for inherited IRAs), should you choose not to withdraw the funds yourself but leave the account intact to a loved one or loved ones.

The catch is that when you convert retirement assets amassed via pre-tax dollars to the Roth after-tax model, you incur income tax liabilities on the full amount converted.

Roth conversions will not be the best option for everyone, but for some with high levels of income, investments, and retirement assets, it can be an excellent choice.

Absent Congressional action this year, many of the provisions of 2017's Tax Cuts and Jobs Act (TCJA) will be sunset at midnight December 31, 2025.

One of the sunsetting provisions will concern the lowered individual income tax rates and the increased thresholds applicable to the higher brackets.

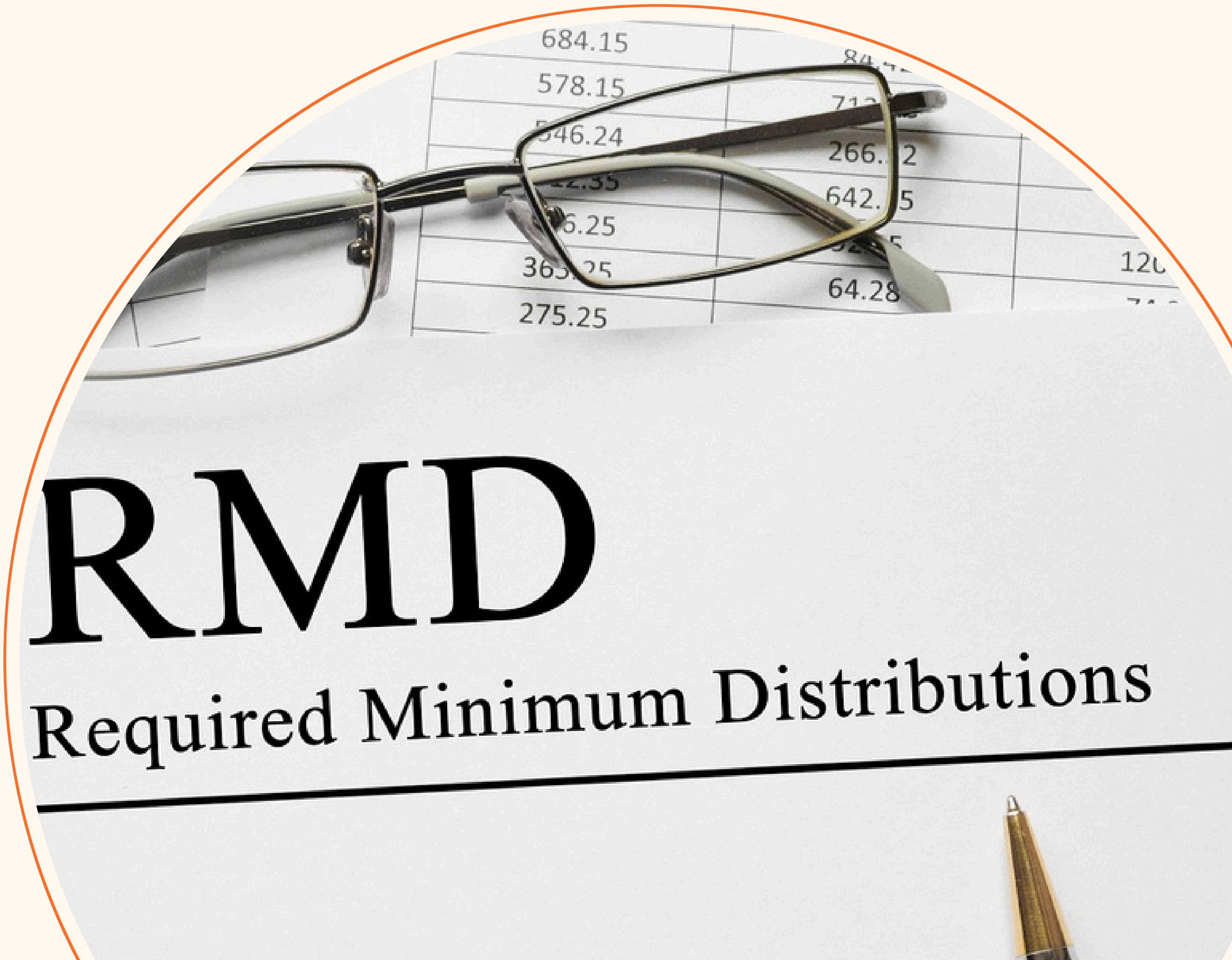
Therefore, assuming the TCJA tax cuts are not extended or made permanent in 2025, it would be cheaper to convert retirement funds to a Roth account this year than next.

DEFER RETIREMENT ACCOUNT DISTRIBUTIONS

If you have substantial assets and retire before age 73, use your other assets to fund your life's expenses until you must take required minimum distributions from your retirement accounts. RMDs apply to all retirement accounts except Roth IRAs and Roth 401(k)s.

Your retirement account withdrawals from accounts funded with pre-tax dollars trigger taxable events – you will incur income tax liabilities on your withdrawals from traditional, SEP and SIMPLE IRAs and employer-sponsored retirement plans which you contributed to with pre-tax dollars.

Of course, if you liquidate assets held in your non-qualified investment accounts, there is the potential of triggering capital gains tax liability. However, careful planning, ensuring as much capital gain as possible is offset by capital losses, and ensuring only long-term capital gains taxes are triggered – long-term capital gains are taxed at between 0% and 20%, with most taxpayers liable for a 15% rate, while short-term capital gains are taxed at ordinary income rates – this potential tax consequence can at least be minimized.



DON’T RUSH TO COLLECT SOCIAL SECURITY

While you will be eligible to collect Social Security Income (SSI) before you reach your full retirement age (this age depends on the year you were born), your monthly SSI will be greater every year you defer taking benefits – through age 70.
You can defer SSI payments as long as you please, but age 70 is the last year the benefits will increase via deferral, so there is no benefit to waiting beyond age 70 to start receiving your SSI.

If you do defer SSI payments, don’t forget you still need to sign up for Medicare – you can do this starting three months before you turn 65.

FINAL THOUGHTS

It's vital to plan well ahead for your retirement – and you and your future are worth every bit of care and attention it takes to develop a comprehensive retirement plan and update it regularly. Do this with the counsel of your virtual CFO or other trusted financial advisor – it will pay considerable dividends in the long run.

Because your retirement is indeed a splendid opportunity, if you've made sound plans, to live the life you want, unfettered.

If it's been a while since you reviewed your retirement plan, or if you've only scratched the surface in your planning, please call Rigby Financial Group – we have long expertise in all aspects of financial and retirement planning, and would be delighted to help ensure your plans are all up to date and ship-shape.

So, our final advice is:

Start planning! We invite you to begin with us – RFG has a team of experts at your service!

DON'T DO IT ALONE!

When it comes to retirement planning, one of the biggest assets you can leverage is a Virtual CFO or trusted business advisor.

Your virtual CFO or trusted business advisor is the best place to start! Don't leave your hard earned assets at risk if the unexpected should occur - call Rigby Financial Group and start planning for your dream retirement today!